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International Auditing
and Assurance
Standards Board

Submitted via Website

Unser Zeichen VS

Sachbearbeiter Mag. Scharrer

Datum 23rd August 2023

Subject: Proposed International Standard on Auditing ISA 570 (Revised 202x) Going Concern

Dear Sir or Madam,

We are pleased to provide you with our comments on the proposed International Standard on Auditing 570 (Revised 202x) Going Concern.

General Comments

We are supportive of the majority of the proposals included in ED-ISA 570. Going Concern is one of the topics oriented to public interest so any improvements of auditing standards should help to reduce the expectation gap amongst different stakeholders.

Changes to auditing standards have an important role to play but cannot substitute the responsibilities of others in the ecosystem. Management and those charged with governance are responsible for a robust and transparent assessment of an entity´s ability to continue as a going concern. All participants – those charged with governance, investors, regulators, as well as auditors - have a role to play in encouraging and supporting a high quality corporate reporting and auditing system. Without a broad change and coordinated effort, expectation gap issues will remain. Investors´ desire for deeper insight into companies´ going concern status cannot be achieved by statements made by the auditor alone.

We have concerns that some proposals are not within the remit of auditing standards, such as an explicit Going Concern disclosure by the management or the period of management´s assessment. There is also a lack of scalability in ED-ISA 570 since it does not address cases where the risks related to going concern are easy to assess or, if any, are extremely remote.

Am Belvedere 10 | Top 4 | 1100 Wien
T +43-1-811 73 | F +43-1-811 73-100
www.ksw.or.at | office@ksw.or.at

We thank you for the opportunity to comment. For further information on this letter, please contact our Technical Advisors: Mag. Gerhard Prachner (gerhard@prachner.at), or Dr. Anton Schmidl (anton.schmidl@crowe-sot.at).

Sincerely,

Dr. Aslan Milla (Chairman of the Professional Expert Committee for Auditing & Assurance Services)	Mag. Gregor Benesch (Deputy Secretary General)

digitally signed

Austrian Chamber of Tax Advisors and Public Accountants

The Austrian Chamber of Tax Advisors and Public Accountants, KSW is the statutory and regulatory authority of tax advisors and public accountants in Austria. KSW represents more than 10,000 members, making tax advisors and public accountants the second-largest group within the liberal professions. For 70 years now, KSW has been a reliable partner for its members and an important point of contact for the business sector and politics in Austria in all matters relating to tax advising and auditing. KSW works with the Austrian legislative bodies on bills of law and provides expert advice to its members.

The Austrian Chamber of Tax Advisors and Public Accountants is in the EU Transparency Register (No 533887237765-96).

Overall Questions

1. Do you agree that the proposals in ED-570 are **responsive to the public interest**, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1?

(1) See our comments in the cover letter above.

(2) In general, we want to stress that auditors can only address issues in their opinion, when they can refer to explicit disclosures in the notes. Such disclosures are based on accounting standards requirements. Current accounting standards do not require an explicit management assessment statement (neither IAS 1.25 nor local GAAP) on going concern. They also do not require the definition of the period of management assessment which the IAASB wants to rely on.

(3) We do not support to communicate in any case in a separate section in the auditor´s report an explicit statement about the auditor´s conclusions on the appropriateness of management´s use of going concern basis of accounting.

(4) The going concern basis of accounting, that applies in any case unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so, becomes more important in this context. For reasons of scalability, the standard should also outline this basis rule more clearly and specify when a detailed going concern assessment is not required.

(5) Based on the proposed new going concern section in all auditor's reports, we want to put up for discussions the following. Reference to responsibilities and conclusions with respect to going concern will be included in three different sections of the auditor´s report: the new going concern paragraph and management´s as well as auditor's responsibility sections. We therefore recommend consolidating the respective responsibilities and conclusions within one Going Concern section.

2. Do you believe that the proposals in ED-570, considered collectively, will enhance and **strengthen the auditor's judgments** and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?

(6) As mentioned above (para.2), an audit is only possible on the basis of management's statements/assertions. Since most accounting standards (at least not the local Austrian GAAP) do not contain an explicit disclosure by management on going concern assessment, an explicit statement by the auditor in the auditor's report is not possible.

(7) The IAASB obviously implies the regulations according to IAS 1. However, in contrast to ISA 570.3 with its reference to IAS 1, in our opinion, IAS 1.25 also does not require an explicit disclosure by management, but only - as in other accounting standards - that management as a whole must assess the entity's ability to continue as a going concern in addition to a legal presumption to do so. Other auditing standards (e.g. ISA UK 570.10-1) require an explicit viability statement from management. The distinction between explicit and implicit disclosure becomes more important.

(8) Also, the unchanged reference in ISA 570.7 last sentence, that the auditor's report related to a material uncertainty is not a going concern guarantee is to be extended in the light of the planned changes also to the now required statement in the audit opinion (see question 13).

3. Do you believe the proposed standard is **scalable** to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?

(9) The ED-ISA 570 does not address cases where in the absence of special risk factors, risks of going concern are easy to assess or, if any, are extremely remote. Therefore, the reference of ISA 570.A3 (and IAS 1.26) with remote going concern risks if a company has a history of profitable operations and ready access to financial resources should be included in the requirements (e.g. 570.11). We also propose to include this explanation in A13 or A14 (scalability).

(10) For the same reason, it should be clarified not only in 570.2 (introduction) but also in the requirements (e.g. 570.11) that the going concern basis of accounting applies until management either intends to liquidate the entity or to cease operations, or until management has no realistic alternative but to do so (see also IAS 1.25). This guidance should also be included in A13 or A14 (scalability).

(11) Particularly from the perspective of SMEs, especially with an owner- manager, going concern audit procedures must be scalable. We ask for more guidance in A13 and A14.

4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of **professional skepticism** in relation to going concern?

(12) We refer to the cover letter and support to focus even more clearly on going concern.

Specific Questions

5. Do you support the **definition** of **Material Uncertainty** (Related to Going Concern)? In particular, do you support the application material to the definition clarifying the phrase "may cast **significant doubt**"?

(13) We support the clearer definition of the phrases "material uncertainty" and "significant doubt" but believe that the definitions are not finally discussed. In particular, we suggest that A4 and A5 make clearer reference to the concept of ISA 315 Revised that likelihood is of equal importance to magnitude.

(14) We understand A4 and A5 to mean that "material uncertainty" covers the likelihood dimension and significant doubt covers the magnitude dimension. According to our understanding of ISA 315 revised, the likelihood and magnitude of a risk at the financial statement level should not be assessed in an explicit way like at the assertion level, but since going concern affects all audit areas, we consider a similar assessment to be

appropriate. In our opinion, therefore, the likelihood should be assessed in addition to the magnitude in the definition of “significant doubt”.

(15) The concept of likelihood should also be described more consistently in the assessment of management's future plans (ISA 570.26), since a lower probability of the plans being realized leads to uncertainties that must be explicitly reflected in the financial statements. We do not feel that this connection to A5 has been made in the requirements. (see also comments on question 10)

(16) Identical definitions of these phrases in applicable accounting standards are crucial. We are concerned that in the case of "framework may not define ..." (A4 and A5), an explicit management statement and so a basis for auditors under this ISA is not given.

6. Does ED-570 appropriately build on the foundational **requirements in ISA 315** (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern?

(17) We see a strong overlap with ISA 315 and want to point out the 9 requirements in ISA 570.12. Also, the scope of the application material from A8 to A22 also seems excessive and there seems to be a large overlap with the general requirements of ISA 315.

(18) The draft ISA 570.11 (even more clearly A6) requires the auditor to identify events or conditions related to going concern. According to existing ISA 570.10, this task is the responsibility of management: "...whether management has identified..."). ISA 570.14 outlines consequences when management has not identified certain risks. We suggest that the phrase „identification“ is better distinguished between the identification within the risk assessment by the auditor and the duty of the management to identify going concern risks.

(19) We request to take over the sentence from existing A3 in the introductory sentence in draft A6 according to which the listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

(20) A7 contains examples of fraud risk factors related to significant doubt such as incentives or pressure. In our view, ISA 240 contains sufficient guidance on these topics. Alternatively, these examples should be noted for the forthcoming ISA 240 revised.

7. Do you support the change in the **commencement date of the twelve-month period** of management’s assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?

(21) We support the renewal of the timeline to a period of 12 months from the date of preparation of the financial statements.

(22) In addition, we point out (see also para 2 above), that an extension of the going concern assessment period cannot be required solely from the perspective of auditing standards. It is also necessary that the relevant accounting standards provide for a corresponding period requirement, as the auditor can only refer to such standards as applicable criteria.

8. Do you support the enhanced approach in ED-570 that requires the auditor to design and perform audit procedures to **evaluate management's assessment** of going concern in all circumstances and **irrespective** of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?

(23) We support the fundamental requirement for auditors to include going concern in the risk assessment. However, we note that, in our view, this requirement already arises from ISA 315 and therefore there is no need for new regulations. However, it should be specified under which conditions no further procedures are required for risk assessments. This is particularly necessary for reasons of scalable application of the ISAs for less complex entities.

9. Does ED-570 appropriately incorporate the concepts introduced from **ISA 540** (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern?

(24) We believe that ISA 570 appropriately incorporates the concepts introduced from ISA 540, however, we would like to point out that ISA 540 also contains sufficient requirements for going concern issues, so that, in our view, no additional requirements are necessary.

10. Do you support the enhanced requirements and application material, as part of evaluating **management's plans** for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?

(25) We welcome clarification on how to proceed in the audit if significant doubt on going concern exists and management presents plans to address this doubt. Some of the requirements however like evaluating the intent and ability of third parties will be challenging. We suggest to focus the guidance on practical audit procedures.

(26) While ISA 570.26 (a) requires an assessment of the likelihood that the situation can be improved by the plan, A49-A53 now suggest explicit confirmations on the feasibility of the plans.

(27) The going concern concept requires that when there are significant doubts, the existence of a related material uncertainty must be assessed. We suggest that this basis principle is not only stated in A51 but as a requirement by introduction of lit (d) in ISA 570.26 that reads "material uncertainty exists related to management's plans." This is necessary to clarify the phrase "improve" of ISA 570.26 (a).

11. Will the enhanced requirements and application material to **communicate with TCWG** encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern?

(28) We believe that communication is already sufficiently regulated at present.

12. Do you support the new requirement and application material for the auditor to **report** to an appropriate **authority outside of the entity** where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?

(29) We support the emphasis on this possible regulation, although this is already apparent from the respective local laws.

13. This question relates to the implications for the **auditor's report** for audits of financial statements of all entities, i.e., to communicate in a separate section in the auditor's report, under the heading "Going Concern" or "Material Uncertainty Related to Going Concern", explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified.

Do you support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

(30) We do not agree with the proposal in ED-ISA 570.33 that the auditor shall include a separate section in the auditor's report with the heading "Going Concern" and state as proposed in ED-ISA 570.33 (a) (I) and (ii) without any reference to a disclosure in the notes for the financial statements.

(31) We therefore propose a regulation in line with the current regulation in ISA 570.22 with respect to the existence of a material uncertainty where the auditor refers to management's assessment of going concern.

(32) We do not support to communicate in any case in a separate section in the auditor´s report an explicit statement about the auditor´s conclusions on the appropriateness of management´s use of going concern basis of accounting.

(33) The true and fair view concept requires an overall auditor's statement on the annual financial statements. A detailed statement on an individual assertion, which is not even explicitly stated in the financial statements contradicts this concept.

(34) It should also be stated (see para 8) in the extended opinion that the statement of the auditor is no going concern guarantee. We refer to ISA 570.7 last sentence, that the auditor's report related to a material uncertainty is not a going concern guarantee and suggest to clearly state this in the opinion.

(35) If the auditor's report will be extended, we refer to para 5 and recommend consolidating the respective responsibilities and conclusions within one Going Concern section.

14. This question relates to the additional implications for the auditor's report for audits of financial statements of listed entities, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

    Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

    (36) We refer to our comments to question 13.

15. Is it clear that ED-570 addresses all implications for the **auditor's report** relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with **ED-570 and not in accordance with ISA 701 or any other ISA**)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

    (37) Yes, this is clear but please consider our comments to question 13.

16. Are there any **other matters** you would like to raise in relation to ED-570? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

    (38) As the IAASB states that the implementation of ED-ISA 570 is planned to be at the same date as the implementation of ED-ISA 240, we suggest that the approval process of ISA 570 should be synchronized with that of ISA 240, as we believe that similar issues will arise.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:
    (a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570

    (b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

    (39) See comment above.

KAMMER DER
STEUERBERATER:INNEN UND
WIRTSCHAFTSPRÜFER:INNEN

Elektronische Signatur

Signator:in	Kammer der Steuerberater:innen und Wirtschaftsprüfer:innen
Datum / Zeit	23.08.2023 / 10:45 (MEZ)
Dokumenthinweis	Dieses Dokument wurde amtssigniert.
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